

15 Cost Identification and Recovery

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Cost Identification and Recovery

Overview

This policy covers the identification and recovery of APHIS costs included in APHIS user fees and cooperative service agreements (including trust funds and reimbursable agreements). It should be used by the individual(s) responsible for formulating the amount to charge for these activities.

Authorities That Allow APHIS to Charge

User Fees: See Chapter 10 of the APHIS Budget and Accounting Manual for a full description of APHIS User Fee Authorities. APHIS Directive 2150.1 establishes policy and responsibilities for developing, approving, and implementing APHIS user fees. APHIS user fees are set by the APHIS Financial Management Division (FMD).

Agreements: See Chapter 3 of the APHIS Agreements Management Manual for APHIS agreement authorities. A project manager (also referred to as the Authorized Departmental Officer's Designated Representative (ADODR)) is responsible for calculating the costs to be charged to cooperators in carrying out cooperative service agreements.

Definition of Full Cost and Applicable Standards

All government agencies are required to recover 100 percent of all costs incurred to convey a special benefit to recipients beyond those accruing to the general public, unless specific laws have restrictions on cost recovery. This includes user fee and cooperative services. While APHIS must ensure all legitimate costs are passed on to such customers or cooperators, we are also required to keep these costs to a minimum according to 31 USC 9701. It states, "It is the sense of Congress that each service or thing of value provided by an agency to a person is to be self-sustaining to the extent possible. Each charge shall be fair and based on the costs to the Government".

**Definition of Full
Cost and
Applicable
Standards
(Continued)**

OMB Circular A-25: The Executive Office of the President's Office of Management and Budget (OMB) has issued a circular, OMB Circular A-25, "User Charges", which provides guidance to agencies to carry out the provisions of 31 USC 9701. It establishes guidelines for Federal agencies to assess fees for Government services and for the sale or use of Government property or resources. This Circular provides guidance for agencies to institute charges and states that charges are to be sufficient to recover the full cost to the Federal Government of providing the service, resource, or good. The Circular goes on to define full cost as follows:

"Full cost includes all direct and indirect costs to any part of the Federal Government for providing a good, resource, or service. These costs include, but are not limited to, an appropriate share of: (a) Direct and indirect personnel costs, including salaries and fringe benefits such as medical insurance and retirement. Retirement costs should include all (funded or unfunded) accrued costs not covered by employee contributions as specified in Circular No. A-11. (b) Physical overhead, consulting, and other indirect costs including material and supply costs, utilities, insurance, travel, and rents or imputed rents on land, buildings, and equipment.... (c) The management and supervisory costs. (d) The costs of enforcement, collection research, establishment of standards, and regulation, including any required environmental impact statements. (e) Full cost shall be determined or estimated from the best available records of the agency, and new cost accounting systems need not be established solely for this purpose".

APHIS is required to adhere to the definition of full cost given in OMB Circular A-25, "User Charges". The cost of providing user fee and cooperative services includes, among other costs mandated by statutory requirements, direct costs and indirect costs.

Direct Costs: Direct labor costs are the costs of employee time spent specifically to provide the service. Direct material costs include the cost of any materials needed to supply the service. Direct labor and direct material costs vary with the type of good or service provided.

Definition of Full Cost and Applicable Standards (Continued)

Indirect (Overhead) Costs: Indirect costs are those incurred for expenses not directly related to program delivery. Some of these costs are often referred to as overhead. Indirect costs include administrative and departmental charges.

Administrative Charges: Administrative charges include local clerical and administrative activities; indirect labor hours (supervision of personnel and time spent doing work that is not directly connected with the service but which is nonetheless necessary); travel and transportation for personnel; supplies and equipment; training; utilities; regulatory analysis and policy development services; budget and accounting services; management and support (including the Administrator's office and support at the regional level), personnel services, public information services, liaison with Congress, and other miscellaneous activities of this nature.

Departmental Charges: Departmental charges are APHIS' share, expressed as a percentage of the total cost of services provided centrally by the Department of Agriculture (Department). Departmental charges include Federal Telephone Services, mail, National Finance Center (NFC) services, unemployment compensation, Office of Workers Compensation Programs, and central supply for storing and issuing commonly used supplies and Department forms, etc.

Discussion of Overhead

APHIS does not receive a separate line item appropriation to pay for overhead costs. Except those activities listed under "Overhead exceptions" below, or those activities with statutory exclusion, overhead must be included as a cost component for all Agency services including user fee and cooperative service agreement activities.

APHIS charges overhead on all user fee and cooperative services to specifically pay for the indirect costs related to providing those services. APHIS uses a standard overhead rate to calculate overhead costs added to reimbursable, trust fund, and non-Agricultural Quarantine Inspection (AQI) user fee charges. AQI user fees use a modified overhead rate.

**Discussion of
Overhead
(Continued)**

The current APHIS overhead rate is 13.9% of the gross (or total) costs (or 16.15% of direct costs) associated with providing services to a customer/cooperator. Two methods of calculating this amount for cooperative agreements and corresponding examples are included in Chapter 6 of the APHIS Agreements Management Manual. See the APHIS Budget and Accounting Manual Chapter 6, Distributing Overhead Costs, for information on what the Agency does with overhead amounts collected for chargeable activities and for spreading overhead costs to appropriate line items.

Overhead exceptions: 1) Contingency funds, 2) Integrated Systems Acquisition Project (ISAP), 3) Reimbursements from client agencies that Marketing and Regulatory Program Business Services, (MRPBS) supports, 4) The portion of reimbursable overtime excluded from overhead charges by the Airport and Airway Development Act, and 5) Activities performed by support units but considered program delivery, such as risk assessment projects in Policy and Program Development and the Plant Protection and Quarantine Professional Development Center.

**Cost Identification
and Recovery for
User Fee Services**

Federal regulations require a biannual review of user fee charges. The Financial Management Division (FMD) reviews the fees biannually to ensure they accurately reflect the cost of the services provided. Any necessary additions, deletions, or changes are proposed in the “Federal Register”. FMD calculates user fees to cover the full cost of providing the service for which the fee is charged. Based on statutory requirements, all elements of full-cost (as described above) are included in the user fees. Chapter 10 of this Manual, Revenue and Receivables, contains general information on user fees.

User Fee Cost Identification Methods: There are two main methods used to determine the costs that are included in user fees: a top-down approach or a bottom-up approach. The top-down approach uses total estimated costs and divides those costs by projected activity volumes to arrive at the fee. The bottom-up approach looks at the amount of time it takes to provide an activity, then determines the cost by multiplying the amount of time it takes to provide a service by the hourly cost for the employee. Appropriate indirect and overhead costs are then added to arrive at the final user fee. Both approaches meet appropriate accounting standards and are considered reasonable.

Cost Identification and Recovery of Cooperative Service (Trust Funds and Reimbursable) Agreement Costs

Cooperative Service Agreements are the legal documents used for trust fund and reimbursable agreements. Chapter 6 of the APHIS Agreements Management Manual contains the APHIS policy and procedures for initiating and administering cooperative service agreements. As described in Chapter 6 of the APHIS Agreements Management Manual, the project manager (also referred to as the Authorized Departmental Officer's Designated Representative (ADODR)) is responsible for calculating the costs to be charged to cooperators in carrying out cooperative service agreements.

Based on statutory requirements, all elements of full-cost must be recovered through the agreements. APHIS does not receive appropriated funds to pay for the costs incurred in executing agreements. All costs, including overhead, are the responsibility of the cooperator. Collections are used to carry out the specific project according to the terms of the cooperative service agreement.

Trust Fund Cooperative Service Agreements: Trust fund agreements are formulated for 1) plant preclearance activities in which certain fruits, vegetables, and nursery products are inspected before shipment to the U.S.; 2) APHIS inspection of cold storage systems on ships used to transport fruits or vegetables to the U.S.; 3) VS commercial bird import activities; 4) quarantine and inspection of animals and facilities at points overseas; and 5) activities to assist State and local government agencies and rancher associations to reduce damage or control losses caused by nuisance animals. A separate accounting classification code must be established under appropriation symbol 12X8226, Miscellaneous Contributed Funds, for each trust fund.

Trust Fund Advance Deposits: Trust funds require the cooperator to deposit, in advance, an amount equal to the estimated cost of services to be provided. The advance payment should be in an amount sufficient to cover the expected costs to be incurred by APHIS to perform the service or complete the project. Appropriation X83 is used for trust fund accounts. All transactions should include the appropriate accounting classification code assigned to a particular project.

**Cost Identification
and Recovery of
Cooperative
Service (Trust
Funds and
Reimbursable)
Agreement Costs
(Continued)**

Delinquent Trust Fund Accounts: If an account is 60 days delinquent, APHIS has the right to immediately terminate services. No additional service(s) will be provided until a sufficient balance is restored and until APHIS determines that the account is current. Any and all shut down and/or start up costs are paid by the Cooperator.

Project Manager Responsibility/Statements of Account: Each project manager is responsible for the use and accountability of funds received for the trust fund. Each agreement requires the project manager to monitor the cooperator's balance and provide a full accounting of the fund. If necessary, a statement is issued for additional funds. APHIS is not allowed to perform services without sufficient funds to pay for those services.

The project manager is responsible for ensuring that some sufficient fund balance remains in the account to complete the project. In determining additional funding needs, consideration must be given to: 1) information included in the last statement of account, 2) period of time covered by the last statement of account, 3) activity accomplished and not covered by the statement, and 4) projected activity needed to complete the project.

In some cases, MFSB issues statements for cost incurred to restore a deposit to its original level. In other cases, deposits are restored on an "as needed" basis. If, after careful review of the accounting records and statements of account, additional funds are required from the cooperator to continue the project, the project manager notifies the cooperator and provides justification for additional funds. In all cases, the amount of services provided under a trust fund agreement should not exceed the balance of funds on deposit with APHIS. Any unobligated balance remaining upon termination or expiration of the agreement is usually returned to the cooperator. In certain cases, with permission of the cooperator, unobligated balances may be retained and applied to future agreements.

**Cost Identification
and Recovery of
Cooperative
Service (Trust
Funds and
Reimbursable)
Agreement Costs
(Continued)**

The statement of account is not considered a bill for accounting purposes: no receivable is established in the accounting system as a result of the issuance of the statement. The cooperator has given us an advance of funds to perform the work. The statement should include the beginning balance, the activity processed, the activity period, the accounting code, the overhead amount, and the ending balance. Activity reflected in the statement may include additional deposits received, obligations recorded, or agreement cancellation. Agreement cancellation requires a final accounting audit and may involve a refund of the balance on deposit with APHIS. If money is owed, APHIS will establish an accounts receivable in that amount.

Trust Fund Manual Statements: Each project manager has the option of preparing a manual monthly statement of accounts for submission to the cooperator. As an alternative, MFSB generates statements from the Detail Transaction Reports, of all APHIS trust fund activities to provide to each program unit. The manually prepared statement must be consistent with obligations recorded on the monthly accounting reports. Additional information may be added to the accounting reports to make the statement more current. This information can be in the form of additional checks received but not processed or the correction of errors or omissions of obligations detected in accounts for submission to the cooperator. MFSB generates monthly statements of all APHIS trust fund activities to provide to each program unit using the Detail Transaction Report, the Payroll Report by Pay Period, and the Revenue Reimbursables Detail Report. The manually prepared statement must be consistent with obligations recorded on the monthly accounting reports. Additional information may be added to the accounting reports to make the statement more current. This information can be in the form of additional checks received and not processed into the accounting system or the correction of errors or omissions of obligations detected in the accounting reports. All errors and/or omissions must be researched and corrected in the official accounting record. In either case, the Detail Transaction Report, the Payroll Report by Pay Period, and the Revenue Reimbursables Detail Report should be used as the basis for generation of the monthly statement of account.

Cost Identification and Recovery of Cooperative Service (Trust Funds and Reimbursable) Agreement Costs (Continued)

Reimbursable Cooperative Service Agreements: Obligations and reimbursements for reimbursable cooperative service agreements are recorded with a specific project code for each agreement. Starting October 1, 1999, APHIS uses the following appropriation codes for reimbursable agreements with single year authority: appropriation X57 for reimbursable agreements with other USDA agencies, appropriation X58 for reimbursable agreements with non-USDA Federal Agencies, and appropriation X59 for reimbursable overtime and agreements with nonfederal agencies. APHIS uses appropriation X73 for no-year reimbursable agreements.

The appropriate accounting code must appear on all documents used to record transactions. MFSB representatives prepare monthly bills for services provided under reimbursable agreements and a receivable is established in the accounting system. MFSB submits these directly to the customer with payment instructions. The amount is based on services provided as reflected in the accounting system by charges recorded against the accounting code assigned to the activity or agreement. This bill includes the activity period, current charges processed by amount and type of expenses, and accounting code.

International Services (IS) Agreements

APHIS will apply charges to cooperators uniformly and consistently among all APHIS-IS cooperative service agreements. "International Services" agreements refers to all agreements of an international nature whether they are managed financially by the APHIS IS Program, the APHIS Plant Protection and Quarantine Program, or any other APHIS program. Due to the unique indirect costs to be included in IS agreements and because IS agreements are coordinated with State Departments and foreign nationals, IS policy is specifically addressed here. The same procedures should be followed by all other APHIS programs to identify and charge costs. If a trust fund agreement is entered into with a foreign entity, it is subject to the provisions of the Foreign Assistance Act of 1961 and is negotiated with the Government of the exporting country. Nothing included in the Act precludes APHIS from charging full costs.

International Services (IS) Agreements (Continued)

IS Background and Authorities: APHIS-IS currently have approximately 100 cooperative service agreements in foreign countries for the pre-inspection and pre-clearance of agricultural commodities such as flowers or grain. APHIS enters into cooperative service agreements with one exporter association per country, where practical, not with each individual member of the association. APHIS is only required to prepare a monthly financial statement reflecting the current status of the cooperator's account, without additional information relating to individual member's accounts.

Additional Recoverable Expenses: Along with all other full-cost elements, the following major cost categories are considered recoverable and must be recovered from IS trust fund cooperators.

International Cooperative Administrative Support Services (ICASS) Charges: ICASS charges are indirect costs. APHIS overhead will be charged on top of ICASS charges. ICASS was implemented by the U.S. State Department in FY 1997 and replaces the former FAAS system. ICASS distributes the cost of common administrative support services shared among U.S. Government agencies at overseas posts.

APHIS receives one ICASS invoice per post around June of each year, and a central ICASS accounting code is charged. In APHIS posts that are 100 percent trust fund-dedicated (e.g. Jamaica, the Netherlands), the entire ICASS invoice is covered by the cooperators managed from that post. Even though the State Department, not APHIS, provides this service overseas, APHIS does incur overhead costs for the work we do, and these costs must be recovered.

In posts where there is more than one trust fund or a mixture of trust funds and appropriated funds, the local office is responsible for determining the appropriate percentages of ICASS charges to prorate to each respective accounting code.

**International
Services (IS)
Agreements
(Continued)**

This can be done applying the embassy's/consulate's per document processing fee to all documents processed for trust fund activities, or by a proration of general services, utilities, etc. based on the amount of work done for trust funds or by some combination, as determined by the local office and the region. The method used must be supportable, equitable, and well-documented. All ICASS amounts must be distributed appropriately.

The State Department also charges agencies overseas for its Diplomatic Security Local Guard Program. Each agency's share of Embassy and Chancery security services is included in ICASS. The Local Guard Program is the residential, or "roving" guards specifically assigned to Foreign Service officers and directly charged to the affected agencies. All costs are to be treated like ICASS charges, described above, and passed on to cooperators as appropriate costs.

Foreign Service Officer (FSO)/Foreign Service National (FSN) Salaries and Benefits: To the extent that FSOs and FSNs perform work for trust funds, their salaries and benefits must be charged to the cooperators. These costs are direct costs. FSOs and FSNs who are 100 percent dedicated to trust fund work will be fully charged to the respective trust funds.

The salaries and benefits of FSOs and FSNs partly dedicated to trust funds will be direct-charged to the specific trust fund account through the Time and Attendance Log (T&A). For example, if an employee performs trust fund work for 56 hours in a given pay period and non-trust fund (appropriated) work for the remaining 24 hours, the timekeeper will charge 56 hours to the specific trust fund account and 24 hours to appropriated funds. This method will ensure the most equitable charge is assessed to both the trust fund accounts and the IS salary and expenses appropriation.

Some US Embassy accounting procedures preclude using more than one accounting code on a FSNs T&A. In this case, the local or regional office will transfer charges via a B2, Expenditure Adjustment to the appropriate trust fund account(s) to ensure that the trust funds are charged fairly for time worked.

**International
Services (IS)
Agreements
(Continued)**

FSN Severance Pay: FSN severance pay costs must be charged to the cooperative agreements. These costs are indirect costs. This includes accrued retirement costs that are not covered by employee contributions. In most overseas posts, the U.S. Government is liable for a lump sum payment for FSNs when the employee leaves federal service; therefore, this cost must be passed on to the cooperator for FSNs dedicated to trust funds. When a FSN worked only partially on trust fund activities, we should include our best estimated prorated amounts for accrued retirement costs. Trust fund agreements must be amended to specifically include cooperator liability for lump sum payments, and a severance fund should be established locally. The local or regional office will calculate the amount needed to be deposited each year into these accounts.

Training and Travel Costs Charged to Trust Funds: All training and travel for FSOs and FSNs specifically related to trust fund activities are direct costs and must be charged to the respective trust funds. Training or travel that is not related to trust funds, such as for career development or regional meetings, will be charged to appropriated funds.

Other Costs: Examples of other direct and indirect costs that should be included in these agreements are Fedex expenses for sending checks to deposit, long distance calls directly related to the trust fund, a portion of ICASS charges for utilities, phytosanitary forms, and container seals. Each local office/region shall determine what can legitimately be charged to its trust funds based on the guidance in the APHIS Agreements Management Manual.